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SUBJECT: LEBANON: FINANCE MINISTER AZOUR SELLING A "NEW VISION"

Classified By: Charge d'Affaires Christopher Murray. Reason: Sections 1.4 (b) and (d).

SUMMARY

11. (C) Minister of Finance Jihad Azour on October 20 updated visiting NEA DAS Danin, Charge, and econoff on GOL donor conference preparations and obstacles to economic reform. He hopes to overcome political apathy for reform -- particularly among the March 14 coalition -- by convincing politicians that their political fates are tied to improving social indicators and winning the loyalty of all social groups. Azour waxed at length about creating a "new vision" of a GOL able to provide needed social services and address the needs of all its citizens. End Summary.

PARIS III PLANNING NEARLY COMPLETE...

12. (C) Azour reported that GOL preparations for the January Paris III donor conference are advanced, as the GOL has been preparing continuously since the September Singapore Core Economic Group meeting. Preparations included consultations with the IMF and World Bank on economic assessments, development of policy options and sectoral reform needs, and a "social safety net meeting" with various GOL entities and donors.

13. (C) Azour said he aims to get "the maximum" done before the donor conference, using the impending Paris III meeting to pressure politicians who, left to themselves, would take "no action." He said that privatization and the passage of laws to improve the business and political climate are top priorities. Some early privatization results would be evidence of political will and demonstrate that the reform process is well established and "irreversible" so that any political change would not affect progress. Azour is pushing to accelerate passage of several draft laws in Parliament through conversations with Speaker Nabih Berri.

...POLITICAL WILL HARDER TO ORGANIZE

14. (C) The lack of will for reform among the majority is a greater obstacle than any challenges to reform from the opposition, Azour admitted. With the economic plan sound and the needed steps clear, Azour said he has shifted his energies to selling the plan to various sectors and stakeholders in the economy. He briefed an October 16 Cabinet session that focused on educating ministers about pre- and post-war economic programs and GOL policy options.

Azour and Economy Minister Haddad next week will continue their visits to March 14 group leaders to explain the need for an economic reform program based on political as well as economic imperatives. Political leaders are starting to recognize that how they address socio-economic pressures will affect their political fates, and they increasingly see reform as important to their success over the next six months. If in the medium term social indicators deteriorate, March 14 politicians will be the first to suffer. Ironically, he said, politicians are not looking at the long-term effects of these issues, since in Lebanon, more than anywhere else, the politicians are here to stay, drawing indefinite personal loyalty from their traditional constituencies whether or not they are in office at a given time.

15. (C) Surprisingly, there are no longer major divergences between the economic policies of the majority and the opposition, Azour told us, as demonstrated by General Aoun's speech last week in which he acknowledged Lebanon's economic problems. Azour, in his visits to various leaders, has been making the point that if March 14 and Hizballah leaders could agree on PM Siniora's wartime seven-point plan to end the war, they should be able to use the same concept to agree on major economic reforms that are in the national interest. In any event, Azour noted, March 14 has the majority it needs in the Cabinet and Parliament to push through economic reforms.

OUTSIDE PRESSURE ON
POLITICIANS AND DONORS CAN HELP...

16. (C) Azour noted that his Arab, French, and British colleagues have reached out to him over the last few weeks to

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offer support. (Note: He said Jean-Pierre Jouyet, former French Treasury Director General, appears to be organizing Paris III. End Note.) Azour is in turn contacting Economic Core Group members to discuss preparations for Paris III. Senior IMF and World Bank figures have taken a personal interest in Lebanon, and the third IMF delegation in two months will arrive in Lebanon in early November to discuss "policy issues." (Note: Azour did not mention the possibility of a formal IMF program for Lebanon. End Note.)

17. (C) Azour said that additional U.S. reminders to March 14 politicians that economic reform is important for Lebanese and regional security, and for them individually, would be helpful. Politicians need to be reminded that they face a great opportunity in Paris III, and that they will not be able to get in six months the kind of support that they have the chance to get today. "Time is of the essence." U.S. pressure on potential donors to attend Paris III and show support would also be useful, as a package endorsed by a broad international community will be more readily accepted in Lebanon than a packaged endorsed by the U.S. alone.

...BUT WHAT LEBANON
REALLY NEEDS IS A NEW VISION

18. (C) Azour said that the GOL needs a new vision to bring people back to mainstream political dialogue and to create hope for the future. Despite great successes in rebuilding roads and restoring electricity and water, people are not giving the GOL the credit it is due. Instead of trying to compete with Hizballah's constant cash handouts and massive self-promotion campaign, the GOL needs a new vision and a new value system on which it can build a new political system. This formulation and articulation of a new vision is something that should have been done as soon as the March 14 coalition came to power, Azour opined. The GOL needs a strategic vision including an economic model, a clear role for Lebanon in the region, a vision of the social fabric, and a clear plan for making the transition. Without those,

Lebanon risks backsliding like members of the former Soviet Union whose populations rejected new governments without clearly articulated or implemented programs to improve their lives.

¶9. (C) Azaour argued that Lebanon also needs new politics and a new communications strategy to convince citizens that the GOL is working daily on issues that matter to them. A new interpretation of the Taif Accord would be unproductive, Azour said. Instead, the GOL needs a new way to engage its citizens on social and economic issues, to mobilize people, and to progressively instill new values. Many people feel an allegiance to Hizballah because no other social welfare system in Lebanon works as well as Hizballah's. But with a new economic model, a new role for the state, a new vision to channel people's energies, and a new social contract, the GOL could make real progress. Communication alone is not enough, Azour believes, and the GOL needs a strong new message to relay, as well as a new communications strategy. While Hizballah and its affiliate Jihad al-Bina have provided no roads, power, or water--and in fact were responsible for their destruction -- they have successfully publicized their cash payouts with their "divine victory" publicity campaign.

¶10. (C) Such a new vision would inspire confidence, Azour believes, which is key to economic recovery. Private sector inflows were far greater than donor inflows after the Paris II donor conference because the conference created new confidence and new energy. Former Prime Minister Hariri's programs in the early 1990's likewise created an atmosphere of hope for a better Lebanon with a stronger regional position and an opportunity for divided communities to unite and focus on broader national goals.

STRENGTHENING THE STATE BY
IDENTIFYING AND PROVIDING FOR NEEDS

¶11. (C) Azour said that simply distributing cash in the south would be ineffective, and the GOL needs to identify clearly and deliver on the key concerns and needs of citizens in that area. Compared to other regions, the south is financially privileged in terms of national transfer payments, Azour argued, yet people don't feel that the state is taking care of them. The GOL has spent over USD 2 billion on infrastructure in the south, and spends USD 70-90 million a

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year on agricultural and other subsidies there, while losing revenue by turning a blind eye to unpaid taxes and utility bills. But these direct and indirect transfers do nothing to build support for the GOL. There is no reason to ask Hizballah to stop distributing cash, Azour opined. He asserted that since they instigated all the damage they should be paying out even more. Their patronage and communications network would be no threat if they were disarmed; in contrast the Maronite Church through its Patriarchate has a larger cash and social work patronage network and a more frequent communications system. Simply paying more compensation would just encourage rent seeking and weaken the state. Azour said that his why Lebanon needs a new vision, a new social contract, and a new concept of GOL provision of services.

¶12. (C) DAS Danin has cleared this message.
MURRAY